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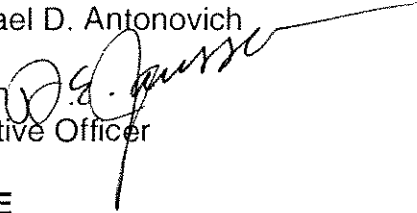
ZEV YAROSLAVSKY  
Third District

DON KNABE  
Fourth District

MICHAEL D. ANTONOVICH  
Fifth District

February 8, 2005

To: Supervisor Gloria Molina, Chair  
Supervisor Yvonne B. Burke  
Supervisor Zev Yaroslavsky  
Supervisor Don Knabe  
Supervisor Michael D. Antonovich

From: David E. Janssen   
Chief Administrative Officer

**WASHINGTON, D.C. UPDATE**

**PRESIDENT'S PROPOSED FEDERAL FISCAL YEAR 2006 BUDGET**

On February 7, 2005, President Bush released his proposed \$2.57 trillion budget for Federal Fiscal Year (FFY) 2006, which begins on October 1, 2005. The Administration projects a FFY 2006 budget deficit of \$390 billion, compared to a projected deficit of \$427 billion in FFY 2005 and actual deficit of \$412 billion in FFY 2004. The FFY 2006 deficit does not include any anticipated funding for the continuing efforts in Iraq or Afghanistan. The proposed budget includes spending cuts that would reduce the deficit to \$207 billion by FFY 2010, according to Office of Management and Budget (OMB) estimates.

The President is requesting \$840 billion in overall discretionary budget authority in FFY 2006, an increase of \$17 billion over FFY 2005. The Department of Defense (DOD) would receive an increase of \$19 billion (not counting increased funding for Iraq and other DOD war on terrorism activities). Overall discretionary non-defense funding would be cut from about \$422 billion in FFY 2005 to \$421 billion in FFY 2006.

Much of the President's proposed budget savings would come at the expense of state and local governments. Of major concern to the County, Medicaid, which alone accounts for about 44% of total Federal revenue received by states and localities, would be cut by \$60 billion over ten years. The President also proposes deep cuts in community development, and justice programs, including the Community Development Block Grant and State Criminal Alien Assistance Program (SCAAP).

## MAJOR BUDGET REDUCTION PROPOSALS

The President's budget proposals that would significantly reduce Federal funding to state and local governments include the following:

**Medicaid Reductions:** The President's budget includes proposals that would cut Medicaid by an estimated \$20 billion over five years and \$60 billion over ten years, including the following which would shift costs to state or local governments:

- Curb the use of intergovernmental transfers (IGTs) as non-Federal matching funds (\$4.6 billion in 5-year savings and \$11.9 billion in 10-year savings);
- Limit Medicaid reimbursement for government providers to no more than the cost of providing services, which, in effect, would reduce the upper payment limit (UPL) for public hospitals, such as the County's (\$1.2 billion in 5-year savings and \$3.3 billion in 10-year savings);
- Limit which services may be claimed as Medicaid targeted case management services, thereby, reducing Medicaid reimbursement of certain state and local costs (\$2.0 billion in 5-year savings and \$7.7 billion in 10-year savings); and
- Cap the current open-ended entitlement reimbursement of state and local Medicaid administrative costs (\$1.1 billion in 5-year savings and \$6.0 billion in 10-year savings).

The total combined fiscal impacts on the County of these Medicaid proposals cannot be estimated at this time because, similar to last year, the Administration has not released detailed language on its Medicaid proposals. However, the County's Department of Health Services estimates that limiting Medicaid reimbursement to government providers to no more than the cost of providing services alone could result in a Medicaid loss of \$240 million a year. As the Administration estimates no Federal cost savings from these above Medicaid proposals in FFY 2006, we assume that they would not take effect until FFY 2007, which begins on October 1, 2006.

**Community Development:** The President is proposing to eliminate 18 programs, including the Community Development Block Grant (CDBG), Brownfields Economic Development Initiative, Economic Development Assistance, and Community Services Block Grant (CSBG), and to replace them with a new Strengthening America's Communities Initiative that would be funded at \$3.71 billion in FFY 2006. In comparison, FFY 2005 funding for these four programs alone totaled nearly \$5.8 billion, including \$4.85 billion for CDBG. This new initiative would target funding to communities most in need of economic and community development assistance. The Administration has not yet released detailed information on this initiative, which

replaces the 18 programs, including CDBG and CSBG, which would be eliminated. The County's Community Development Commission currently receives about \$34 million per year in CDBG funding.

**Justice Assistance:** The President is proposing massive cuts in Federal aid to state and local governments for justice assistance activities, including:

- The State Criminal Alien Assistance Program (SCAAP), which is funded at \$301 million in FFY 2005, would be eliminated. The County received \$13.88 million in SCAAP funding in FFY 2004.
- The Justice Assistance Grant (JAG), which is funded at \$626 million in FFY 2005, would be eliminated. The FFY 2005 omnibus appropriations act consolidated the Local Law Enforcement Block Grant and Byrne formula grants through which the County has received funding in past years into the JAG program.
- Overall funding for Community-Oriented Policing Services (COPS) would be cut from \$598 million to \$118 million in FFY 2006, and the COPS Hiring Grant, Interoperability Communications Grant, and Technologies Grant programs would be eliminated; and
- The Juvenile Accountability Block Grant, which is funded at \$54 million in FFY 2005, would be eliminated.

**Community Access Program (CAP):** The President proposes to eliminate CAP, which is funded at \$83 million in FFY 2005.

**Preventive Health Block Grant:** The President proposes to eliminate this block grant, which is funded at \$131 million in FFY 2005.

## **OTHER BUDGET PROPOSALS**

Other Administration budget proposals of County interest include:

**State Homeland Security Grant (SHSG):** The President's budget proposes to reduce SHSG funding from \$1.1 billion to \$1.02 billion in FFY 2006. The Administration is proposing to drop the current formula which provides each state with 0.75 percent of total SHSG funding before allocating remaining funds based on population. This allocation formula has resulted in California receiving the least amount of SHSG funds per capita of any state. Under the new allocation formula, SHSG funds, instead, would be allocated "based on risks, threats, vulnerabilities, and unmet essential capabilities." Each state would be guaranteed 0.25 percent of total funding, which is far less than under the current allocation formula. Similar to this year, states would be required to pass through at least 80% of total SHSG funding to local governments.

**Urban Area Security Initiative (UASI) Grants:** The President proposes to increase funding for UASI grants to high-threat urban areas from \$885 million to \$1.02 billion in FFY 2006, which would be allocated “based on risks, threats, vulnerabilities, and unmet essential capabilities.” In FFY 2005, UASI funding was allocated based on threat assessment, critical infrastructure and population density. Similar to this year, states would be required to pass through at least 80% of total UASI funding to local governments. The Administration’s request assumes that no more than 50 areas would receive funding, about the same number as in FFY 2004.

**State and Local Law Enforcement Terrorism Prevention Grant:** This state formula grant, which is funded at \$400 million in FFY 2005, would be eliminated in FFY 2006, but at least 20 percent of SHSG and UASI funds would be required to be spent on law enforcement terrorism prevention efforts.

**Port, Transit and Critical Infrastructure Security Grants:** In FFY 2005, Congress appropriated a combined \$407 million for grants for port security, intercity bus security, and intercity passenger rail security. The President’s proposed FFY 2006 budget includes \$600 million “to provide targeted infrastructure protection to ports, transit facilities and such other infrastructure as determined by the Secretary of Homeland Security.”

**Temporary Assistance for Needy Families (TANF):** The Administration is resubmitting a TANF reauthorization proposal that it is very similar to the ones that it submitted in past years. TANF block grant funding to states would continue to be frozen at current levels. The current authorization for TANF expires on March 31, 2005.

**Foster Care Flexible Funding Option:** Similar to last year, the Administration is proposing to provide states with the option of receiving greater flexibility over the use of Title IV-E foster care funds in exchange for having their Federal funding capped over a five-year period.

**Cover the Kids Program:** The Administration is proposing to establish a new Cover the Kids Program, which would provide \$1 billion in funds over two years to help coordinate Federal, state, school, and community Medicaid/State Children’s Health Insurance Program (SCHIP) outreach efforts. The Administration believes that this program would enroll more children in Medicaid and SCHIP, resulting in an estimated \$5.6 billion in increased Federal expenditures.

**SCHIP Reauthorization:** Under current law, SCHIP is authorized through the end of FFY 2007. The Administration proposes that SCHIP reauthorization legislation be enacted a year earlier, but did not release any reauthorization proposals other than including a statement that it will “seek authority to better target SCHIP funds in a timely manner.”

**Medicaid Home Care Demonstration:** The President has resubmitted his FFY 2005 proposal to give states incentives to use home care instead of nursing homes for Medicaid recipients requiring long term care. Under the 5-year "Money Follows the Individual" demonstration, the Federal government would fully reimburse states for one year of Medicaid services for individuals who are moved from nursing homes to at-home care. After the initial year, states would resume receiving Medicaid funds at the normal matching rate. The estimated cost of the initiative would be \$500 million over five years.

**Transitional Medicaid Assistance (TMA):** The President's proposed budget includes \$560 million to extend TMA, which provides up to 12 months of extended Medicaid coverage for persons transitioning from welfare to work, for an additional year. Last year, the President had proposed a 5-year extension of TMA eligibility.

**Community Health Centers:** The President requests about \$2.038 billion for this program in FFY 2006, which is an increase of \$304 million above the FFY 2005 level.

**Employment and Training:** The President is proposing once again to consolidate the Workforce Investment Act (WIA) Adult, Youth, Dislocated Worker, and State Employment Service programs into a single consolidated WIA block grant, which would be funded at \$3.9 billion.

**Transportation:** In its FFY 2006 budget, the Administration is requesting a total of \$284 billion in budget authority over the six years for Transportation Equity Act for the 21<sup>st</sup> Century Act (TEA-21) surface transportation programs, which must be reauthorized. That funding request is higher than the \$256 billion that the President requested last year. The House and Senate will likely introduce and consider new reauthorization bills in the coming weeks. Late last year, House and Senate conferees were close to reaching agreement on an overall funding level of \$299 billion. The current short-term extension of TEA-21 expires on May 31, 2005. For FFY 2006, the President has requested Federal highway funding at \$34.7 billion, which is slightly higher than the level proposed in FFY 2005.

**Section 8 Rental Assistance:** The Administration proposes to fund the Section 8 Rental Assistance Program at \$15.845 billion in FFY 2006, which is about \$1 billion more than FFY 2005. The Administration is expected to submit proposals that would provide public housing authorities with greater flexibility over this program.

**Army Corps of Engineers:** The President proposes to reduce Army Corps' Civil Works funding to \$4.3 billion in FFY 2006, a reduction of \$336 million. Funding for current Army Corps operations and maintenance activities would be increased from \$1.943 billion in FFY 2005 to \$1.979 billion in FFY 2006 while funding for general investigations would be cut to \$95 million in FFY 2006, a reduction of \$48 million.

Attached is a chart with the President's proposed FFY 2006 funding levels for discretionary programs which are funded through annual appropriations bills.

## **CONGRESSIONAL BUDGET PROCESS**

Similar to previous years, the Administration neither has released detailed information nor legislative language on most of its major budget proposals, including Medicaid. However, what matters more is the dollar amount of budget savings that the Administration is pursuing. The next step is for the Congress to hold hearings on the budget proposals, which will be followed by Congressional action on the FFY 2006 budget resolution, which will set non-binding spending and revenue targets to guide Congressional action on fiscal legislation. FFY 2006 funding levels for discretionary programs will be set through individual appropriations bills.

If the budget resolution's spending targets assume savings in mandatory (entitlement) programs, such as Medicaid, we expect that the Republican Congressional leadership will seek to include reconciliation instructions, directing committees with jurisdiction over entitlement programs to report legislation that would achieve the budget savings. This is because, under Congressional budget rules, a budget reconciliation bill cannot be filibustered. This means that only a simple majority, not 60 votes, are needed to pass a budget reconciliation bill in the Senate.

We will continue to keep you advised of any new developments.

DEJ:GK  
MAL:MT:RM:ib

### **Attachment**

c:     Executive Officer, Board of Supervisors  
        County Counsel  
        All Department Heads  
        Legislative Strategist

**PRESIDENT'S PROPOSED FEDERAL FISCAL YEAR (FFY) 2006 BUDGET**  
(in millions)

<b>PROGRAMS</b>	<b><u>Enacted</u> <u>2005</u></b>	<b><u>President's</u> <u>2006</u></b>
<b><u>Homeland Security</u></b>		
State Homeland Security Grant	\$ 1,100	\$ 1,020
State and Local Law Enforcement Terrorism Prevention	400	0
High-Threat Urban Area Grants	885	1,200
Rail and Transit Security <sup>1</sup>	150	0
Port Security <sup>1</sup>	150	0
Critical Infrastructure <sup>1</sup>	0	600
Emergency Management Performance Grants	180	170
Fire Act Grants	715	500
<b><u>Justice</u></b>		
State Criminal Alien Assistance Program	301	0
Justice Assistance Grant	626	0
Community-Oriented Policing Services (COPS)	598	118
DNA Initiative	109	177
Juvenile Justice Formula Grant	83	43
Juvenile Accountability Block Grant	54	0
Southwest Border Prosecutor Program	30	48
<b><u>Health and Human Services</u></b>		
Bioterrorism Public Health Grants	927	797
HRSA Hospital Preparedness Grants	491	483
Ryan White AIDS Total	2,073	2,083
Community Health Centers	1,734	2,038
Family Planning	286	286
Community Access Program	83	0
Preventive Health Block Grant	131	0
Maternal and Child Health Grant	724	724
Substance Abuse Block Grant	1,776	1,776
Mental Health Block Grant	433	433
Social Services Block Grant	1,700	1,700
Community Services Block Grant	637	0
Child Welfare Services	290	290
Independent Living	140	140
Promoting Safe and Stable Families	404	410

<b>PROGRAMS</b>	<b><u>Enacted</u> <u>2005</u></b>	<b><u>President's</u> <u>2006</u></b>
<b><u>Health and Human Services, cont.</u></b>		
Child Care Development Block Grant	\$ 2,073	\$ 2,073
Refugee Assistance	484	552
Administration on Aging (AoA) Total	1,396	1,372
AoA Family Caregivers	162	162
AoA Nutrition	719	719
AoA Supportive Services	354	354
<b><u>Labor</u></b>		
Adult Training <sup>2</sup>	891	0
Youth Training <sup>2</sup>	986	1,001
Dislocated Workers <sup>2</sup>	1,344	0
Consolidated WIA Grant <sup>2</sup>	0	3,913
State Employment Service <sup>2</sup>	696	0
Title-V Older Americans Employment	437	437
<b><u>Housing and Urban Development</u></b>		
Community Development Block Grant	4,853	0
Section 8 Housing Assistance	14,766	15,845
Public Housing Operating Fund	2,438	3,407
Public Housing Capital Fund	2,579	2,327
Homeless Assistance Grants	1,241	1,440
HOME (Formula Grant)	1,785	1,741
Housing Opportunities for Persons with AIDS	282	268
American Dream Downpayment Initiative	50	200
Brownfields Economic Development Initiative	24	0
<b><u>Commerce</u></b>		
Strengthening America's Communities Initiative	0	3,710
Economic Development Assistance	254	0

### **Footnotes**

- <sup>1</sup> The President proposes the consolidation of Rail and Transit Security, Port Security, and other small programs into a single Critical Infrastructure Grant.
- <sup>2</sup> The President proposes to consolidate the State Employment Service, Dislocated Worker, Youth, and Adult Training Grants, along with two other small programs, into a single Workforce Investment Act (WIA) Block Grant.